

Message Text

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ORIGIN EA-06

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DRAFTED BY EA/PRCM:PTLINCOLN,JR.:EBS

APPROVED BY EA/PRCM - OVARMSSTRONG

EB/ISM - WPOLIK (DRAFT)

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O R 050043Z NOV 74

FM SECSTATE WASHDC

TO USLO PEKING IMMEDIATE

INFO AMCONSUL HONG KONG

C O N F I D E N T I A L STATE 242766

LIMDIS

E.O. 11652: GDS

TAGS: EIND, ETRD, CH, US

SUBJECT: FERROUS SCRAP

REFS: A) STATE 240711

B) STATE 196158

1. AS INDICATED REF. A, USG HAS DECIDED TO ALLOCATE 35,000 SHORT TONS OF FERROUS SCRAP TO PRC FROM 1974 FOURTH QUARTER CONTINGENCY RESERVE. DEPARTMENT DECIDED TO CALL IN PRCLO REPRESENTATIVES IN ADVANCE OF PUBLIC ANNOUNCEMENT TO INFORM THEM OF THIS DECISION, TO INDICATE IT WAS TAKEN IN RESPONSE TO PRCLO'S AUGUST 28 CALL ON DEPARTMENT (REF. B) AND TO SAY WE WOULD LIKE TO BE INFORMED WHETHER PRC INTENDS TO AVAIL ITSELF OF THIS ALLOCATION.

2. DEPARTMENT CALLED IN HEAD OF PRCLO COMMERCIAL SECTION CHANG TSIEN-HUA TO DISCUSS THIS ISSUE LATE FRIDAY NOVEMBER 1. CHANG WAS ACCOMPANIED BY COMMERCIAL OFFICER/INTERPRETER T'UNG CHIH-KUANG. U.S. SIDE CONSISTED OF EA/PRCM DIRECTOR ARMSTRONG, LINCOLN (EA/PRCM) AND POLIK (EB/ISM).

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3. IN HIS BRIEF OPENING REMARKS, ARMSTRONG INDICATED THAT

FERROUS SCRAP SHORTAGE PROBLEM STILL EXISTS DUE TO CONTINUING LARGE DOMESTIC AND FOREIGN DEMAND EXCEEDING THE SUPPLY. THE U.S. REALIZES THAT THE EXPORT CONTROLS CAUSE PROBLEMS FOR MANY COUNTRIES, BUT ARE NECESSARY TO PROTECT INTERESTS OF U.S. DOMESTIC INDUSTRY AND TO TREAT AS

EQUITABLY AS POSSIBLE THE INTERESTS OF OTHER COUNTRIES. AFTER CHANG DISCUSSED THE SCRAP PROBLEM WITH DEPT. IN AUGUST, USG HAS CONSIDERED THE MATTER CAREFULLY AND DECIDED TO ALLOCATE 35,000 TONS OF SCRAP TO THE PRC IN THE FOURTH QUARTER. ARMSTRONG NOTED THAT THIS WAS THE LARGEST SINGLE ALLOCATION TO ANY ONE COUNTRY, AND WHEN ADDED TO 9,400 REGULAR QUARTERLY QUOTA, PROVIDES ABOUT 45,000 TONS FOR THE QUARTER.

4. POLIK NEXT EXPLAINED SOME OF THE HIGHLIGHTS OF CURRENT REGULATIONS, NOTING IN PARTICULAR THOSE CHANGES WHICH MAY BE HELPFUL TO THE PRC:

(A) CONTINGENCY ALLOCATION

-- 28,000 TONS LIMITATION ON "TYPE A" SCRAP

-- CAN BE BOUGHT FROM ANY US EXPORTER, BUT NO MORE THAN 10,000 TONS FROM ANY ONE EXPORTER

-- ORDERS MUST BE DATED AFTER NOVEMBER 3, 1974 AND MUST PROVIDE FOR SHIPMENT IN THE FOURTH QUARTER OR AS SOON THEREAFTER AS POSSIBLE

-- AMERICAN EXPORTERS MUST FILE EXPORT LICENSE APPLICATION WITH COMMERCE DEPT. BY COB DECEMBER 6

(B) REGULAR ALLOCATION OF 9,400 TONS

-- ALL MAY BE "TYPE A" SCRAP

-- PRC, AND OTHERS WITH LESS THAN 10,000 TON QUOTA, MAY PLACE ORDERS WITH ANY US SUPPLIER INCLUDING THOSE WITH NO PREVIOUS RECORD OF EXPORTS TO PRC (POLIK NOTED THAT CONFIDENTIAL

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THIS CHANGE IN THE REGULATIONS WAS TAKEN AS A DIRECT RESULT OF PROBLEMS ENCOUNTERED BY PRC AND A FEW OTHER COUNTRIES.)

-- ORDERS MUST BE DATED AFTER SEPTEMBER 23, 1974 AND MUST PROVIDE FOR SHIPMENT IN THE FOURTH QUARTER OR AS SOON AFTER AS POSSIBLE; LICENSE APPLICATIONS FOR THESE ORDERS MUST BE RECEIVED BY THE COMMERCE DEPT. BY COB

NOVEMBER 15.

5. POLIK CONCLUDED BY GIVING PRCLO REPRESENTATIVES A BRIEF WRITTEN SUMMARY OF THE POINTS HE HAD MADE AND A COPY OF THE PERTINENT REGULATIONS FOR THE REGULAR

ALLOCATION (CONTINGENCY ALLOCATION REGULATIONS TO BE PROVIDED LATER.)

6. ARMSTRONG SAID WE REALIZE THAT THE CONTINGENCY TOGETHER WITH THE REGULAR ALLOCATIONS DO NOT FULLY MEET PRC NEEDS, BUT WE HOPE THE PRC WOULD CONSIDER THE CONTINGENCY ALLOCATION A STEP FORWARD. HE ADDED THAT WE HOPE THAT THE PRC WILL LET US KNOW IN THE NEAR FUTURE WHETHER THEY INTEND TO USE THE CONTINGENCY ALLOCATION.

7. CHANG'S RESPONSE WAS BRIEF AND NONCOMMITTAL. HE SAID THAT THE SCRAP QUESTION HAD BEEN DISCUSSED AT GREAT LENGTH ON PREVIOUS OCCASIONS, AND THAT IT WAS NOT NECESSARY TO GO OVER IT AGAIN. HE SAID THAT PRC RAISED THE QUESTION FROM A GENERAL STANDPOINT--THE TRADE RELATIONS BETWEEN THE TWO COUNTRIES. QUANTITY INVOLVED IS NOMINAL, NOT A LARGE AMOUNT OF MONEY OR PROPORTION OF TOTAL TRADE VOLUME BETWEEN THE TWO COUNTRIES. CHANG SAID HE WOULD REPORT BACK TO HIS GOVERNMENT. ON THE WAY OUT OF THE BUILDING, CHANG ELABORATED ON HIS REMARKS SOMEWHAT TO LINCOLN, REITERATING THAT THE VOLUME WAS NOT LARGE BUT THAT HE WAS CONCERNED ABOUT THE BROAD TRADE RELATIONSHIP AND THE PROBLEMS WHICH WOULD ARISE FROM NONFULFILLMENT OF CONTRACTS. LINCOLN REPLIED THAT WE OF COURSE AGREE THAT CONTRACT FULFILLMENT IS A VERY IMPORTANT PRINCIPLE, ALTHOUGH THE US GOVERNMENT IS NOT IN A POSITION TO FORCE OUR COMPANIES TO LIVE UP TO THEIR
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CONTRACT COMMITMENTS. WITH REGARD TO SCRAP, WHICH IS AN EXCEPTIONAL CASE, LINCOLN NOTED THAT WE HAD NOT DISCUSSED THE QUESTION ON A GOVERNMENTAL LEVEL UNTIL EARLY THIS YEAR, BUT IN ANY CASE, AFTER THE INSTITUTION OF THE CONTROL PROGRAM, THE US SUPPLIERS DID OR SHOULD HAVE INFORMED THE PRC THAT ANY CONTRACTS ENTERED INTO WOULD BE CONTINGENT ON OBTAINING A LICENSE.

8. WITH REGARD TO REFTTEL A, PARA 5, USLO MAY SEEK APPOINTMENT WITH MINMETALS OR OTHER PRC ENTITY TO REITERATE POINTS MADE IN WASHINGTON, IF YOU BELIEVE A PARALLEL APPROACH IN PEKING WOULD SERVE A USEFUL PURPOSE. INGERSOLL

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